Quarterly Report 1/2016

- PCC posts solid start to the new year with an EBITDA figure of €14.9 million
- PCC Chemicals concerns earn high sustainability ratings
- Construction progressing to plan at PCC BakkiSilicon hf in Iceland
- New container block train service launched between the Ruhr district and Poland
- PCC Chemicals segments showcase their products on a new internet portal

Major plant construction site of PCC BakkiSilicon hf near Húsavik in the north of Iceland, destined by 2018 to become the home of the world's most advanced and most environmentally compatible silicon metal production facility with an annual output capacity of 32,000 metric tons (see also page 4).

Business Development

The portfolio companies of the PCC Group largely had a successful start to the new year. Although, once again, our sales expectations for the first quarter of 2016 were not fulfilled, with revenues also down year on year, on the earnings side we outperformed both the prior-year quarter and our 2016 Group budget. The main reason for this development is the continuing low level of raw material prices. Although these led to reductions in sales revenue, on the purchasing side our portfolio companies have continued to benefit from this low-cost situation. In some areas, moreover, modernisation and expansion investments now completed also had a positive influence on business performance. Foreign exchange effects, such as the weakening of the Polish zloty versus the euro, likewise had an impact. In all, the PCC Group reported consolidated sales for the first quarter of 2016 amounting to €138 million (previous year: €144 million). Earnings before interest (or financial result), taxes, depreciation and amortisation (EBITDA) grew to €+14.9 million as of 31 March, €6.8 million higher than the corresponding prior-year figure of €+8.1 million. Earnings before taxes (EBT) came in at €+2.3 million, matching the level of the prior-year period. Both EBT and EBITDA were significantly above forecast.

In all, the Chemicals division of the PCC Group generated sales of €117.6 million in the first quarter of 2016. All four of its major segments, namely Polyols, Surfactants, Chlorine and Speciality Chemicals, posted a successful performance for the first three months, with only the "PCC Consumer Products" subgroup falling short of its targets for the quarter.

Polyols

The Polyols segment continued its positive business performance through the first quarter. Although sales for the quarter were below forecast due to the low price levels prevailing, on the earnings side our expectations were exceeded on the back of the continuing strong performance of the Polyols business unit of PCC Rokita SA, Brzeg Dolny (Poland). However, performance in the Polyurethane Systems business unit was sluggish in the first quarter of 2016, leaving it slightly in deficit. The season-related low level of volume sales in insulating foams and the fact that sales to the mining sector remained below plan are among the causes of this development. The planned commissioning of further production lines at the Brzeg Dolny site will, however, certainly contribute to further growth in the Polyols segment as the year progresses.

Surfactants

Business performance in the Surfactants segment was also once again solid in the first quarter of 2016. Although – as in the case of the Polyols segment – sales remained below forecast, its earnings performance was positive and in line with expectations. Once again in the first quarter, PCC Exol SA, Brzeg Dolny, was able to benefit from the favourable purchase prices of its input materials. Despite temporary production problems in the Betaines business unit, this portfolio company closed the first quarter above plan. The US American subsidiary of PCC Exol SA, namely PCC Chemax, Inc., Piedmont (South Carolina), which focuses on oilfield chemicals, was however unable to quite reach its earnings targets for the first quarter. The main reason here lay in persistent difficulties prevailing in the crude oil market. Nevertheless, this portfolio company also ended the first quarter with a positive earnings result overall.

Chlorine

The Chlorine segment closed the first quarter with a positive result and significantly above plan. However, costed into this forecast were start-up losses relating to the production plant for ultra-pure monochloroacetic acid (MCAA) managed within this segment. Because of the delayed commissioning of the facility, these losses were also deferred. The final production start-up for the MCAA plant is envisaged for the middle of 2016 following installation of a key component scheduled for delivery in June.

The main sales and earnings generator in this segment remained the Chlorine business unit of PCC Rokita SA. This affiliate was able to significantly exceed our earnings expectations in the first quarter – despite the delay suffered by the MCAA business unit – thanks to persistently favourable raw material prices and the significant improvement in energy efficiency brought about by the new chlor-alkali electrolysis facilities. Gratifyingly, much of the chlorine volume originally earmarked for MCAA production was successfully sold to a third-party, with the remainder being used, inter alia, in our own propylene oxide production plant.

Speciality Chemicals

The Speciality Chemicals segment likewise posted a positive business performance in the first quarter. Both the alkylphenol manufacturer PCC Synteza S.A., Kędzierzyn-Koźle (Poland), and the Phosphorus and Naphthalene Derivatives business

Key financials by segment (per IFRS)		Polyols			Surfactants			Chlorine			Speciality Chemicals		
		Q1/2016	3M/2016	3M/2015	**Q1/2016**	3M/2016	3M/2015	**Q1/2016**	3M/2016	3M/2015	**Q1/2016**	3M/2016	3M/2015
Sales[1]	€ m	**31.3**	31.3	35.4	**25.2**	25.2	25.9	**19.0**	19.0	12.1	**35.3**	35.3	43.2
EBITDA[2]	€ m	**3.8**	3.8	5.0	**2.6**	2.6	2.4	**5.1**	5.1	−2.0	**1.2**	1.2	1.2
EBIT[3]	€ m	**3.5**	3.5	4.7	**2.1**	2.1	1.9	**3.6**	3.6	0.3	**0.4**	0.4	0.3
EBT[4]	€ m	**3.3**	3.3	4.3	**1.5**	1.5	1.0	**3.2**	3.2	−2.2	**0.1**	0.1	0.6
Employees	(at March 31)	**182**	182	150	**254**	254	249	**343**	343	249	**357**	357	383

Notes: Rounding differences possible. Prior-year figures for 2015 adjusted due to expansion of the scope of consolidation in accordance with IFRS. This also required the retrospective full consolidation of PCC BakkiSilicon hf, Húsavík (Iceland). Subject to change without notice. Quarterly figures unaudited. | **1** The segment sales indicated relate exclusively to external sales. Intra-group sales have already been eliminated through consolidation. | **2 EBITDA** (earnings before interest, taxes, depreciation and amortisation) | **3 EBIT** (earnings before interest and taxes) = Operating profit = EBITDA - depreciation and amortisation | **4 EBT** (earnings before taxes) = EBIT - financial result

PCC site in Essen (Germany)

unit of PCC Rokita SA were able to close the first quarter with better-than-expected results. The two businesses continued to benefit from the low purchase prices for raw materials. However, in the Phosphorus and Naphthalene Derivatives business unit in particular, increasing competitive pressures became apparent in the course of the quarter due to cheap imports from Russia and China. The two commodity trading companies PCC Trade & Services GmbH, Duisburg (Germany), and PCC Morava-Chem s.r.o., Český Těšín (Czech Republic) likewise found themselves under increasing competition from China (in particular in relation to coke) in the first quarter. Added price pressures arose initially from high inventories in coke that had accumulated in the UK in 2015 following the closure of several production facilities. Despite these setbacks, both trading companies closed the first quarter with positive results, although PCC Trade & Services GmbH was unable to hit its quarterly targets. In the meantime, however, the prices for Chinese coke have been showing a slightly upward trend. Moreover, a major first-time contract has been booked for the Canadian market for the second quarter. The earnings situation from our trading operations should, therefore, improve in the coming months.

The quartzite quarry of PCC Silicium S.A., Zagórze (Poland), closed the first quarter with a loss, as expected. Although a major order was concluded with a ferrosilicon producer, significant seasonal sales of material for the construction of roads or railway tracks are not expected until the second quarter. As mentioned in the preceding quarterly report, a fundamental improvement in the economic situation of this portfolio company is not expected until the silicon metal production plant in Iceland is commissioned.

Consumer Products

The "PCC Consumer Products" subgroup continued to operate at a loss through the first quarter. The main causes for this remained below-forecast sales of PCC Consumer Products Kosmet Sp. z o.o., Brzeg Dolny, arising from the months-long upgrade work being carried out on its production facilities. The situation was further exacerbated by the fact that the business's biggest customer in Poland to date started up a production facility of its own last year and has since significantly reduced its purchase volumes. With completion of the upgrade work, PCC Consumer Products Kosmet Sp. z o.o. therefore turned its attentions during the first quarter on acquiring GMP (Good Manufacturing Practice) approval, which is awarded subject to compliance with directives on process and environment quality assurance in the manufacture of pharmaceuticals, cosmetics, and food and feed products. This approval is indispensable for the planned sale of Kosmet products in Western Europe. Its award is expected in the course of the second quarter of 2016.

The other portfolio companies belonging to this subgroup – the matches factory PCC Consumer Products Czechowice S.A., Czechowice-Dziedzice (Poland) and the Belorussian company OOO PCC Consumer Products Navigator, Grodno – were likewise unable to meet our expectations as of March 31, 2016, with sales figures coming in below plan.

Energy

The Energy division of the PCC Group generated external sales of €3.3 million in the first quarter of 2016. Overall, business performance was in line with forecasting expectations. Both the Conventional Energies business unit and the Renewable Energies business unit ended the first quarter in profit. The main earnings generator remained the Conventional Energies business unit comprised of the CHP power plant (and the corresponding business unit) of PCC Rokita SA, and the power and heat cogenerator PCC Energetyka Blachownia Sp. z o.o., Kędzierzyn-Koźle (Poland).

Logistics

The Logistics division of the PCC Group posted external sales of €15.3 million for the first quarter of 2016. This thus also represents a minor shortfall versus our sales expectations. Gratifyingly, however, at least the Intermodal Transport business unit was able to generate better results than forecast. The modernisation and expansion investments made with respect to the container terminals of PCC Intermodal S.A., Gdynia (Poland), contributed significantly to this improvement. The portfolio company was able to benefit greatly from the increase in container numbers handled at its terminals during the first quarter. Additional growth is expected to be generated during 2016 by an expansion to the portfolio of services provided along the transport corridor between the Ruhr district in Germany and Poland (see page 4). In addition, regular services to and from France and also towards the south, that is to say beyond the Czech Republic into Austria, Hungary and Turkey, are also in the pipeline. The tanker haulage company PCC Autochem Sp. z o.o., Brzeg Dolny, was likewise able to

Key financials by segment (per IFRS)		Consumer Products			Energy			Logistics			PCC Group total		
		Q1/2016	3M/2016	3M/2015	**Q1/2016**	3M/2016	3M/2015	**Q1/2016**	3M/2016	3M/2015	**Q1/2016**	3M/2016	3M/2015
Sales[1]	€ m	**6.7**	6.7	9.0	**3.3**	3.3	3.2	**15.3**	15.3	13.2	**137.6**	137.6	144.0
EBITDA[2]	€ m	**−0.6**	−0.6	0.1	**2.3**	2.3	2.1	**1.5**	1.5	0.9	**14.9**	14.9	8.1
EBIT[3]	€ m	**−0.8**	−0.8	−0.1	**1.6**	1.6	1.4	**0.6**	0.6	0.3	**8.8**	8.8	2.6
EBT[4]	€ m	**−1.2**	−1.2	−0.3	**1.6**	1.6	1.3	**0.5**	0.5	1.1	**2.3**	2.3	2.3
Employees	(at March 31)	**549**	549	588	**181**	181	181	**372**	372	336	**2,975**	2,975	2,889

Notes: Rounding differences possible. Prior-year figures for 2015 adjusted due to expansion of the scope of consolidation in accordance with IFRS. This also required the retrospective full consolidation of PCC BakkiSilicon hf, Húsavík (Iceland). Subject to change without notice. Quarterly figures unaudited. | **1** The segment sales indicated relate exclusively to external sales. Intra-group sales have already been eliminated through consolidation. | **2 EBITDA** (earnings before interest, taxes, depreciation and amortisation) | **3 EBIT** (earnings before interest and taxes) = Operating profit = EBITDA - depreciation and amortisation | **4 EBT** (earnings before taxes) = EBIT - financial result report successful results at the end of the first quarter. In the case of the Russian portfolio company ZAO PCC Rail, Moscow, the restructuring measures described in the last quarterly report began to show initial success: during the first quarter, this affiliate was able to post a positive EBITDA number. It also profited in particular from favourable foreign exchange effects in March, enabling it to close the period with a positive result overall.

Holding/Projects

Aside from PCC SE, this segment also accounts for various internal service companies and the project companies PCC BakkiSilicon hf, Húsavík (Iceland), and OOO DME Aerosol, Pervomaysky (Russia). PCC SE has a 50 % stake in the latter company, with the remaining 50% being held by a long-standing Russian partner. The implementation of the dimethyl ether project is, however, still dependent on the latter providing the necessary financing. Delayed discussions in this regard with Russian banks were only restarted in the first quarter. The holding company itself, PCC SE, ended the first quarter of 2016 as expected with a negative result. Following receipt of the dividend payouts from various portfolio companies scheduled for the second quarter, this situation will, however, be briefly reversed.

PCC Chemicals concerns earn high sustainability ratings

The two Polish chemicals companies PCC Rokita SA and PCC Exol SA have achieved high marks in the renowned international sustainability rating published by EcoVadis.

In recognition of its achievements in the field of corporate social responsibility (CSR), surfactants manufacturer PCC Exol SA was awarded, in February of this year, the Gold certificate, the highest status achievable in the EcoVadis ranking. Overall, PCC Exol SA thus counts among the best 2% of the globally assessed suppliers in all CSR categories. In the previous year, this Group subsidiary had achieved Silver status on the occasion of its first participation in the rating process.

PCC Rokita SA took part in the ranking for the first time in December 2015. As the biggest chemicals concern within the PCC Group, it likewise immediately achieved Silver status, placing it among the top 30% of the most sustainable companies audited by EcoVadis.

Silicon metal plant in Iceland: Coal storage facility under construction

Construction progressing to plan at PCC BakkiSilicon hf in Iceland

The construction of our silicon metal production plant in Iceland is proceeding to schedule and to budget. Among other things, all the side walls of the first main building have now been erected. This coal storage facility measuring over 120 metres long and 30 metres wide should therefore now be completed in July 2016, a little before the planned date. The ongoing progress of the project can be viewed on the internet – with a regularly updated gallery of photos – at: http://www.pcc-silicon-project-iceland.eu

New container block train service launched between the Ruhr district and Poland

PCC Intermodal S.A. has expanded its services on the transport corridor between the Ruhr district in Germany and Poland on the basis of a close international collaboration. Since the beginning of January, the Polish PCC Group company together with its partner companies Hupac Intermodal SA, Chiasso (Switzerland), and Kombiverkehr KG, Frankfurt am Main (Germany), has been offering direct services between Duisburg's DUSS terminal and the PCC-owned container terminal in Kutno (Poland). This new direct train with a load capacity running to 1,200 metric tons operates four times a week in both directions, and twice a week with a stop in Poznań Franowo. From Duisburg and Kutno, onward transport is handled by the existing national and international services offered by the three operators.

PCC Chemicals segments showcase their products on a new internet portal

The PCC Group has seen its new internet product portal go live, allowing customers and stakeholders to gain an overview of the solutions offered by our Chemicals segments, complemented by a convenient and fast search capability. Over 500 of our products and chemical formulations serving a wide range of industrial applications can be found on www.products.pcc.eu.

The electronic product catalogue with its advanced design can be filtered on the basis of various criteria, including field of application, composition, and chemical action. All products are described in detail, and registered users are able to download comprehensive documentation covering each item. The portal is initially available in English and Polish. A German language version is in the pipeline.

Duisburg, May 18, 2016

Published by
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